

**COUNTY SANITATION DISTRICTS
OF LOS ANGELES COUNTY**

Single Audit Report

For The Fiscal Year Ended June 30, 2008

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**COUNTY SANITATION DISTRICTS
OF LOS ANGELES COUNTY**

Single Audit Report

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MOSS, LEVY & HARTZHEIM LLP

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**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL
OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

To the Honorable Boards of Directors
County Sanitation Districts of Los Angeles County:

We have audited the financial statements of the County Sanitation Districts of Los Angeles County (Districts) as of and for the fiscal year ended June 30, 2008, which collectively comprise the Districts' basic financial statements, and have issued our report thereon dated November 13, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Districts' internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Districts' internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Districts' internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Districts' ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Districts' financial statements that is more than inconsequential will not be prevented or detected by the Districts' internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Districts' internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Districts' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly we do not express such an opinion. The results of our tests disclosed no instance of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the Districts' Boards and management, the State Controller's Office, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Moss, Levy & Hartzheim

Moss, Levy & Hartzheim, LLP
Beverly Hills, California
November 13, 2008



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**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE
WITH REQUIREMENTS APPLICABLE TO EACH
MAJOR PROGRAM AND ON INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

To the Honorable Boards of Directors
County Sanitation Districts of Los Angeles County:

Compliance

We have audited the compliance of the County Sanitation Districts of Los Angeles County, (Districts) with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to its major federal program for the fiscal year ended June 30, 2008. The Districts' major federal program is identified in the summary of the auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to its major federal program is the responsibility of the Districts' management. Our responsibility is to express an opinion on the Districts' compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and *OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and *OMB Circular A-133* require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Districts' compliance with those requirements and performing such other procedures as we considered necessary in the circumstance. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the Districts' compliance with those requirements.

In our opinion, the Districts complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the fiscal year ended June 30, 2008.

Internal Control Over Compliance

The management of the Districts is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Districts' internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Districts' internal control over compliance.

A control deficiency in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

Schedule of Expenditures of Federal Awards

We have audited the basic financial statements of the Districts as of and for the fiscal year ended June 30, 2008, and have issued our report thereon dated November 13, 2008. Our audit was performed for the purpose of forming an opinion on the financial statements that comprise the Districts' basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by *OMB Circular A-133* and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

This report is intended solely for the information and use of the Districts' Boards and management, the State Controller's Office, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Moss, Levy & Hartzheim

Moss, Levy & Hartzheim, LLP
Beverly Hills, California
November 13, 2008

**COUNTY SANITATION DISTRICTS
OF LOS ANGELES COUNTY**

Schedule of Expenditures of Federal Awards

For The Fiscal Year Ended June 30, 2008

Federal Grantor/ Pass-Through Grantor Program Title	Federal CFDA Number	Loan/Grant Number	Federal Expenditures
Passed through the State Water Resources Control Board:			
<u>Capitalization Grants for State Revolving Funds:</u>			
SIPS Equipment Purchase	66.458	C-06-4001-280	\$ 1,127,082
Saugus WRP, Non Equipment Purchases	66.458	C-06-4082-170	<u>195,639</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u><u>\$ 1,322,721</u></u>

See accompanying notes to schedule of expenditures of federal awards

**COUNTY SANITATION DISTRICTS
OF LOS ANGELES COUNTY**

Notes to Schedule of Expenditures of Federal Awards

For the Fiscal Year Ended June 30, 2008

1. REPORTING ENTITY

The financial reporting entity consists of (a) the primary government, County Sanitation Districts of Los Angeles County (Districts), and (b) entities which include organizations for which the primary government is financially accountable, and other organizations for which the primary government is not accountable, but for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. The consolidated entity of the Districts is:

- The Los Angeles County Sanitation Districts Financing Authority (Authority)

The Authority exists solely to facilitate the issuance of long-term debt. The Authority has no daily operations and does not conduct business on its own behalf. Since the governing body of the Authority is entirely comprised of members of the Districts' Boards and the Authority provides services entirely for the Districts, the Authority's financial activities are consolidated with the Districts for financial reporting purposes.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The Districts utilize the accrual method of accounting. The accompanying Schedule of Expenditures of Federal Awards (Schedule) has been prepared accordingly.

Schedule of Expenditures of Federal Awards

The accompanying Schedule presents the activity of all federal financial assistance programs of the Districts. All Federal financial assistance received was passed through the State of California.

The Schedule was prepared from only the account of the grant program and, therefore, does not present the financial position or results of operations of the Districts.

3. PROGRAM DESCRIPTIONS

U.S. Environmental Protection Agency

Capitalization Grants For State Revolving Funds (CFDA No. 66.458)

Capitalization grants are awarded to States to create and maintain Clean Water State Revolving Funds to: (1) enable States to encourage construction of wastewater treatment facilities to meet the enforceable requirements of the Clean Water Act; (2) increase the emphasis on nonpoint source pollution control and protection of estuaries; and (3) establish permanent financing institutions in each State to provide continuing sources of financing to maintain water quality. The Clean Water State Revolving Fund provides loans and other types of financial assistance (but not grants) to qualified communities and local agencies.

**COUNTY SANITATION DISTRICTS
OF LOS ANGELES COUNTY**

Schedule of Findings and Questioned Costs

For the Fiscal Year Ended June 30, 2008

SECTION I – SUMMARY OF AUDITOR’S RESULT

Financial Statements

Type of auditor’s report issued

Unqualified

Internal control over financial reporting:

Material weakness(es) identified

_____ Yes X No

Significant deficiency(ies) identified not considered
to be material weaknesses

_____ Yes X None reported

Noncompliance material to financial statements noted

_____ Yes X No

Federal Awards

Internal control over major programs:

Material weakness(es) identified

_____ Yes X No

Significant deficiency(ies) identified not considered
to be material weaknesses

_____ Yes X None reported

Type of auditor’s report issued on compliance for
major programs:

Unqualified

Any audit findings disclosed that are required to be
reported in accordance with Circular A-133,
Section 510 (a)

_____ Yes X No

Identification of major programs:

CFDA Number(s)

Name of Federal Program or Cluster

66.458

Capitalization Grants For State Revolving Funds

Dollar threshold used to distinguish between Type A
and Type B programs:

\$ 300,000

Auditee qualified as low-risk auditee:

_____ Yes X No

SECTION II – FINDINGS – FINANCIAL STATEMENT AUDIT

None

**SECTION III – FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAM
AUDIT**

None

**COUNTY SANITATION DISTRICTS
OF LOS ANGELES COUNTY**

Status of Prior Year's Findings and Questioned Costs

For the Fiscal Year Ended June 30, 2008

**SECTION III – FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAM
AUDIT**

Finding 2007-1

Environmental Protection Agency
Capitalization Grants for State Revolving Funds
CFDA No. 66.458

Condition and criteria:

Certified payrolls received by contractor were reviewed by Districts' staff. However, once the contract was complete, these payroll documents were shredded.

Effect:

The records were not available to review even though the auditee kept records about what was reviewed. The auditee is not in compliance with its contract with the State of California regarding its retention of records.

Cause:

Even though the Districts recently issued a memo stating no records were to be shredded, there was a field office memo that instructed to box and file or shred when a contract is complete. The employee that shredded the certified payrolls is a new employee and did not get the updated memo.

Questioned costs:

None. In reviewing and testing the Districts' policy for record retention, we noted that its policy is to retain everything forever either by hard copy or on a server. It was also noted that certified payrolls for other contracts are being monitored and that there was documentation that the shredded payrolls were, in fact, monitored for compliance.

Recommendation:

All documents should be retained over the longer of the grant retention period or the Districts' retention period.

Status:

Implemented. The Districts now retain certified payrolls.



COUNTY SANITATION DISTRICTS OF LOS ANGELES COUNTY

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Mailing Address: P.O. Box 4998, Whittier, CA 90607-4998
Telephone: (562) 699-7411, FAX: (562) 699-5422
www.lacsd.org

STEPHEN R. MAGUIN
Chief Engineer and General Manager

July 15, 2009

To Whom It May Concern:

Enclosed is a copy of the Districts' Comprehensive Annual Financial Report for the year ended June 30, 2008. We already send our CAFR with the Single Audit to the following organizations:

State Controller
Division of Local Government Fiscal Affairs
P.O. Box 942850
Sacramento, CA 94250-5874

State Controller's Office
Division of Audits, Single Audits Branch
ATTN: Linda Bottallo
P.O. Box 942850
Sacramento, CA 94250-5874

State Water Resources Control Board
Division of Financial Assistance-SRF
1001 I Street, Suite 1700
Sacramento, CA 95814

County of Los Angeles
Auditor-Controller
Hall of Administration, Room #525
500 West Temple Street
Los Angeles, CA 90012

County of Los Angeles
Treasurer & Tax Collector
Hall of Administration, Room #437
500 W. Temple Street
Los Angeles, CA 90012

Please let me know if the Cal EMA also requires this Single Audit filing every year. If you have any questions, please feel free to contact me at (562) 699-7411, extension 1103. Thank you.

Very truly yours,

Stephen R. Maguin

Thomas J. Mueller
Chief Accountant

TJM/bjj
Enclosure



COUNTY SANITATION DISTRICTS OF LOS ANGELES COUNTY

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STEPHEN R. MAGUIN
Chief Engineer and General Manager

December 22, 2008

Honorable Boards of Directors
County Sanitation Districts
of Los Angeles County

Directors:

In accordance with California Government Code, we hereby submit the Comprehensive Annual Financial Report (CAFR) of the County Sanitation Districts of Los Angeles County (Districts) for the fiscal year ended June 30, 2008. The CAFR contains a complete set of financial statements presented in conformity with generally accepted accounting principles and audited in accordance with generally accepted auditing standards.

This report consists of representations by Districts' management (Management) concerning the finances of the Districts. Consequently, Management assumes full responsibility for the completeness and reliability of all of the information presented in this report. Management has established a comprehensive internal control framework that is designed to ensure that the assets of the Districts are adequately protected from loss, theft, or misuse, and that sufficient reliable information is compiled for the preparation of the Districts' financial statements in conformance with accounting principles generally accepted in the United States of America. Recognizing that the cost of internal controls should not outweigh their benefits, the Districts' comprehensive framework of internal controls has been designed to provide reasonable rather than absolute assurance that the financial statements will be free from material misstatement.

The Districts' financial statements have been audited by Moss, Levy & Hartzheim, LLP, a firm of licensed certified public accountants. The independent auditor concluded that the Districts' financial statements for the fiscal year ended June 30, 2008, are fairly presented in conformity with accounting principals generally accepted in the United States of America. The independent auditor's report is presented as the first component of the financial section of this report.

Management's Discussion and Analysis (MD&A) can be found immediately following the report of the independent auditors and provides a narrative introduction, overview, and analysis to accompany the basic financial statements. This letter of transmittal is designed to complement MD&A and should be read in conjunction with it.

PROFILE OF THE GOVERNMENT

The County Sanitation Districts of Los Angeles County (Districts) are comprised of 24 independent special districts created under the County Sanitation District Act, California Health & Safety Code Section 4700, et seq., to provide sanitation services. The Districts provide environmentally sound, cost-effective wastewater and solid waste management to approximately 5.3 million people in Los Angeles County (County). The Districts' service area covers approximately 800 square miles and encompasses 78 cities and unincorporated territory within the County, excluding the majority of the City of Los Angeles.

The governing body of each district is comprised of a Board of Directors (Board) generally consisting of the mayor of each city within the Districts' boundaries and the Chair of the County Board of Supervisors for unincorporated territory. The Boards are responsible for, among other things, adopting budgets and user charges, levying taxes, and establishing policies. The 24 districts are served by one administrative staff, led by the Chief Engineer and General Manager and the Assistant Chief Engineer and Assistant General Manager. The Districts employ more than 1,900 full-time monthly and hourly employees, organized into eight departments. The workforce is diverse, with the largest concentration of employees serving in the operation and maintenance of the Districts' wastewater and solid waste management facilities.

The Districts' wastewater management system consists of approximately 1,300 miles of main trunk sewers, 52 pumping plants, and 11 wastewater treatment plants. The Districts currently convey and treat approximately 500 million gallons per day (mgd) of wastewater, which is roughly one half of the total wastewater generated in the County. Nearly 200 mgd of the treated wastewater is available for reuse, after receiving a high level of treatment.

The Districts' solid waste management system handles an average of 15,100 tons per day of refuse and recyclable materials. The system consists of three active sanitary landfills, one refuse-to-energy facility, two recycling centers, three materials recovery/transfer facilities, four gas-to-energy facilities, and a clean-fuel facility. The Districts also maintain three former sanitary landfill sites and, through a joint powers agreement, have participated in the development and implementation of another refuse-to-energy facility. The Districts have acquired one remote landfill site and are in the process of developing this site as part of the initial stages of implementing a waste-by-rail system. The Districts have also entered into a purchase agreement for a second remote landfill site, but the purchase is contingent upon resolution of litigation.

The Districts have entered into five joint powers agreements that formed the basis of the following authorities: (1) the Southern California Coastal Water Research Project Authority; (2) the Commerce Refuse to Energy Authority; (3) the Southeast Resource Recovery Facility Authority; (4) the Puente Hills Landfill Native Habitat Preservation Authority; and (5) the Inland Empire Regional Composting Authority. The governing bodies of these authorities are appointed pursuant to each of the Joint Powers Agreements. The budgeting and financing functions are maintained by the individual authorities.

Consolidated Entity

The Districts' CAFR also includes the financial activities of the Los Angeles County Sanitation Districts Financing Authority (Financing Authority). Twenty-two of the districts created the Financing Authority on April 14, 1993. The Financing Authority exists solely to facilitate the issuance of long-term debt and has no daily operations and does not conduct business on its own behalf. Since the Financing Authority's governing body is entirely comprised of members of the Districts' Boards and the Financing Authority provides services entirely for the Districts, the Financing Authority's financial activities have been consolidated with the Districts' financial activities for financial reporting purposes.

Budget

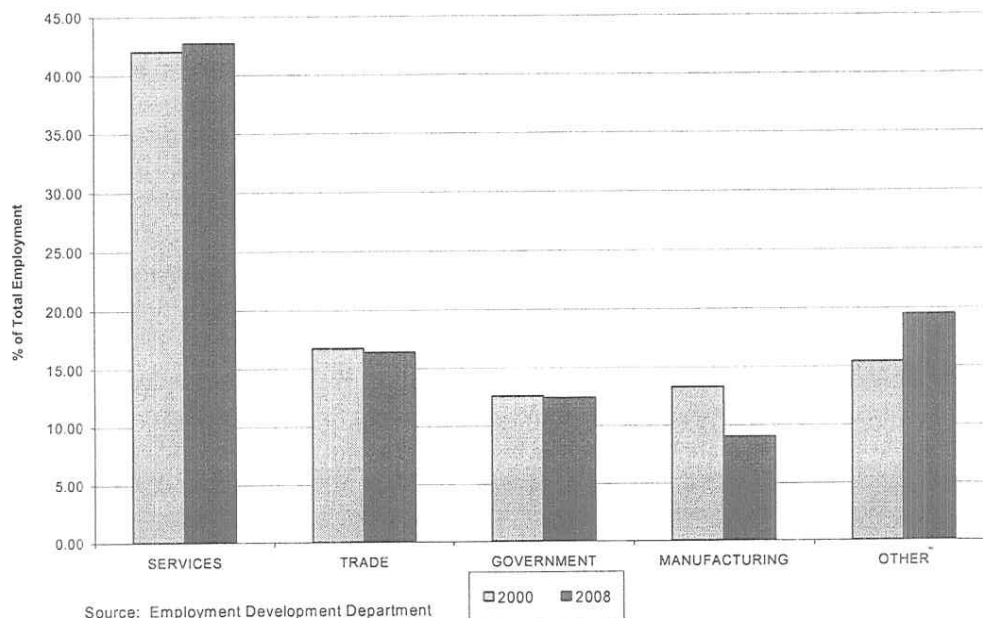
Each district annually adopts a wastewater budget that outlines the major elements of the forthcoming fiscal year's operating and capital programs. From that, Management allocates the funds necessary for the next year's specific activities and projects. The annual operating budgets are used to serve as a basis for monitoring financial progress and determining future wastewater and solid waste user rates. During each fiscal year, operating and capital programs may be amended as circumstances dictate. The overall wastewater and solid waste management budgets for fiscal year 2007-2008 were \$707 million and \$410 million, respectively.

INFORMATION USEFUL IN ASSESSING ECONOMIC CONDITION

Local Economy

The County experienced a population increase of 6.2% since 1999, and the California Department of Finance predicts the County will see an increase of 6.0% between 2007 and 2020. The population within the Districts' boundaries increased 10.8% between 1999 and 2008, with the majority of that growth occurring in the Antelope and Santa Clarita Valleys. The Southern California Association of Governments projects the Sanitation Districts' population growth over the next 15 years to be 15%. Per capita personal income increased 46.62% during the past 10 years. The County saw a 19.1% increase in housing unit permits issued during the seven-year period from 2000 through 2007; however the County saw a 22.8% decrease in housing unit permits from 2006 to 2007. Per the Los Angeles County Economic Development Corporation (LACEDC), new homebuilding activity will remain lackluster in 2008, but the area should begin to see a turnaround in 2009.

Figure 1
L.A. COUNTY ECONOMIC SECTORS
2000 vs. 2008



The unemployment rate in the County increased from 5.4% in 2000 to 7.0% in 2008. Total civilian employment increased by 3.70% during the period, led by the services sector, which saw a 7.29% increase, and the trade sector, which saw a 3.36% increase. Manufacturing jobs decreased for the ninth straight year, for a total decrease of 40.02% during the period, which translates to a 4.29% decrease in that sector's percentage of total employment, as shown on Figure 1. According to the LACEDC, total employment in the County should increase modestly over the next few years, with continued increases expected in the services sector and continued decreases expected in the manufacturing and construction sectors.

California's water supply continues to be a concern due to projected population increases and low precipitation levels. This concern has increased interest in the use of recycled water for groundwater recharge, industrial uses, and irrigation. The Districts have expanded and will continue to expand treatment capacity associated with the approved population growth established by the Southern California Association of Governments, the regional planning agency. Such expansions will continue to enable the service areas to meet federal and state water-quality standards and increase the amount of recycled water available. The Districts also continue to work with local and regional water purveyors in planning and constructing recycled water, advanced treatment, and delivery systems throughout their service areas.

As the population increases and landfill capacity within the County diminishes, solid waste management continues to be a great concern. To conserve landfill capacity, the Districts have implemented various landfill waste diversion and recovery programs to remove materials such as green waste, asphalt, ash, soil, and metallic discards from the waste stream to be recycled or reused. Even with these aggressive waste-diversion and recovery programs and the re-permitting of the Puente Hills Landfill through 2013, the County will require significant long-term landfill capacity.

Long-Term Financial Planning

For many years, the Districts' emphasis on cost-effectiveness has allowed the wastewater connection fees, and the residential, commercial, and industrial service charge rates to increase minimally. However, during the past several fiscal years, the rates have increased for most districts due to the need to fund state and federal mandates, additional capital facilities, rehabilitation of existing infrastructure; and needs related to effluent and biosolids management. For all districts, additional increases of greater magnitude are anticipated in the future to upgrade treatment and infrastructure and comply with increasingly stringent regulatory requirements. (A table reflecting each District's 10-year service charge rate history is located on page 84 of the Statistical Section.) Overall, the Districts' rates remain very competitive when compared to similar agencies.

The Districts' wastewater management system is critically dependent on its ability to dispose of treated effluent. The majority of the Districts' effluent is discharged, either directly or indirectly, to the Pacific Ocean, with a smaller portion being reused. The Joint Water Pollution Control Plant (JWPCP) discharges effluent through a tunnel and ocean outfall system, originally constructed in 1937, and expanded in 1958 and 1967. The tunnel and outfall system must remain in continuous operation, making it impossible for the Districts to determine the physical condition of these critical facilities. Therefore, the Districts are in the preliminary stages of evaluating a new tunnel and ocean outfall system in the context of a broader Joint Outfall System Master Facilities Plan to ensure the overall reliability of the wastewater management system. These facilities are expected to cost approximately \$1 billion to \$1.5 billion (in 2008 dollars).

Fiscal year 2007-2008 was the last year of a four-year service charge rate ordinance for all of the Joint Outfall Districts, except District No. 29, which adopted new rates last year. Consequently, a new three-year rate ordinance was proposed for fiscal years 2008-2009, 2009-2010, and 2010-2011, for all of the Joint Outfall Districts, except District No. 29. In February 2008, approximately 1 million individual notices were sent to

property owners pursuant to Proposition 218. The notice informed dischargers of the average proposed rate increases of \$9, \$11, and \$13 per year in each of the three fiscal years. The proposed 10% increase is necessary to keep pace with inflationary increases in O&M and to construct necessary capital projects in order to continue to provide service and meet regulatory requirements. Public hearings were held in April 2008 with only 0.14% of the property owners submitting protests.

The Lancaster and Palmdale Water Reclamation Plants (WRPs), located in the Antelope Valley, serve the wastewater management needs of these communities. The rapid population growth in the Antelope Valley service area is expected to continue and, based on the expected increase in wastewater flows, the existing treatment capacity at the Lancaster and Palmdale WRPs is adequate until 2010 and 2013, respectively. Management of the treated effluent is an ongoing issue at both plants, since the Antelope Valley is a closed basin with no natural outlets. Requirements imposed by the Lahontan Regional Water Quality Control Board (Lahontan Regional Board), through a settlement agreement primarily related to effluent management, necessitate the construction of major capital facilities, resulting in the need for significant increases in the two Districts' service charge rates of \$50 and \$55 per single-family home per year for four years for District Nos. 14 and 20, respectively, for which fiscal year 2007-2008 was the first year. During fiscal year 2007-2008, two construction contracts for more than \$100 million each were awarded to expand capacity at the Lancaster and Palmdale WRPs and upgrade both to tertiary filtration and disinfection.

Under the terms of the settlement agreement, District Nos. 14 and 20 are also required to, among other things, pay \$200,000 to the state's Waste Discharge Permit Fund and pay six annual payments totaling \$4,550,000 (approximately 96% of the total \$4.75 million penalty) to a Supplemental Environmental Project for the construction of a distribution network for the Antelope Valley Recycled Water Project. The Antelope Valley Recycled Water Project involves a network of conveyance facilities to provide recycled water generated at the Palmdale and Lancaster WRPs for irrigation, recreation, and industrial purposes in an effort to reduce dependence on imported water supplies. This global settlement of administrative liability will protect District Nos. 14 and 20 from additional penalties until new treatment and effluent management facilities can be constructed.

The Saugus and Valencia WRPs serve the wastewater management needs of the Santa Clarita Valley. Over the past four years, the Districts have been working to implement a compliance solution for allowable chloride levels in treated effluent discharged from these facilities to the Santa Clara River. District staff has worked with regulators and stakeholders to develop a proposed watershed-wide plan called Alternative Water Resources Management (AWRM) that is protective of water quality while maximizing water supply. Under the AWRM, both facilities will require the conversion from the current bleach-based disinfection processes, which add chloride to the wastewater, to ultraviolet light disinfection. In addition, to limit salt in the watershed, small-scale advanced treatment, salt management, and brine disposal facilities will be necessary. The AWRM plan represents a cost-effective approach to regulatory compliance. The California Regional Water Quality Control Board, Los Angeles Region, will consider the proposed AWRM at a December 2008 hearing.

In the area of solid waste management, the Districts are continuing efforts to expand recycling (with projects such as the Puente Hills Materials Recovery Facility [MRF]) and to secure remote out-of-County disposal capacity, through the development of a waste-by-rail remote disposal system, as in-County solid waste disposal sites are exhausted. To ensure a smooth transition to the more costly remote disposal system and to avoid sudden large increases in the tipping fees associated with its implementation, the Districts developed a Waste-by-Rail Cost Transition Program. The basic concept of the Cost Transition Program is to utilize a portion of the revenue generated from increased tipping fees from the remaining Puente Hills Landfill capacity, in conjunction with previously set aside funds and a portion of future landfill gas-to-energy revenue, to create

the Waste-by-Rail Cost Transition Fund. The Fund balance will ensure that, when the Puente Hills Landfill closes in 2013, a fully operating system is in place at a tipping fee that is competitive with other disposal options. When waste-by-rail begins, the Fund balance will be drawn down to ease the transition to the more expensive operation. A summary of recent and currently approved rates is located on page 86 of the Statistical Section.

The planned remote disposal system will be comprised of materials recovery/transfer facilities, intermodal rail facilities, and remote out-of-County landfills. The Puente Hills MRF and the Downey Area Recycling and Transfer (DART) facility will process waste to remove recyclable materials, and the residual waste will be put into sealed "intermodal containers," which will look like any other shipping containers. The containerized waste will be transported to intermodal rail facilities where the containers will be loaded onto rail cars for transport to the remote landfills. Containerized waste arriving at the remote landfill will be unloaded from the rail cars and transported to an operating area where the waste is emptied from the containers for disposal.

The Districts continue to pursue suitable locations throughout the County for the siting of additional intermodal rail facilities. Site selection criteria include: access to existing rail facilities; proximity to the Puente Hills MRF, DART, or other potential materials recovery/transfer facilities; freeway access; and available land area. In November 2004, the Districts reached agreements with the City of Industry and the Industry Urban Development Agency to secure the purchase of 17 acres at 2500 Pellissier Place in the City of Industry for the development of a dedicated, local intermodal facility to serve the waste-by-rail system. The proposed facility will be designed to load/unload two trains per day (4,000 tons/train) for transport to the Mesquite Regional Landfill in Imperial County. In June 2008, the City of Industry approved the land use permit for the facility, allowing the Districts to finalize the design.

The Districts have acquired one remote disposal site, the Mesquite Regional Landfill in Imperial County. Projects to prepare the site for initial operations include installation of utilities such as the power supply and the water supply systems, installation of a groundwater monitoring system, roads, drainage facilities, site buildings, and a groundwater protection liner. These projects are nearing completion, and the site will be ready to begin accepting waste by the end of 2008. The acquisition of the Eagle Mountain Landfill in Riverside County is still contingent upon resolution of federal litigation. These two facilities are key elements of the Districts' remote disposal plan to provide long-term solid waste disposal capacity for Los Angeles County. These acquisitions will ensure significant daily permitted capacity is available to Districts' cities and unincorporated County territories when needed. The operation of both sites can provide more than 100 years of disposal capacity for Los Angeles County.

Relevant Financial Policies

Traditionally, the Districts' wastewater financial policies have been tailored to two groups: existing users and new users. Charges to existing users of the system fund operations and maintenance of existing facilities and construction of any necessary capital upgrades (either the rehabilitation of existing facilities or the construction of new facilities that will provide a higher level of treatment, without increasing capacity). Though the Districts continue to receive a pro rata share of the 1% general property tax levy to pay for sanitation services, this amount is insufficient to meet all necessary expenses. The Districts make up this revenue shortfall through the residential and commercial service charge and the industrial waste surcharge program. Each district's Board of Directors sets service charge rates by ordinance. These rates are based on each district's budget, which consists of three major categories: (i) operations and maintenance; (ii) capital; and (iii) debt service. Tax revenues and service charges are received in periodic installments, with the largest receipts occurring in December and April.

The Districts have aggressively pursued State Revolving Fund (SRF) loans offered by the State of California, which provide wastewater agencies 100% of eligible capital construction costs at an interest rate equal to one half of the State's current general obligation bond for a period of 20 years, to supplement the financing of capital upgrades. During fiscal year 2007-2008, the Districts received approximately \$50.1 million from SRF loans.

Capital expansion policies provide that the costs of additional facilities necessitated by increased flows from new development should be borne by new users. Consequently, all of the districts have implemented a Master Connection Fee Ordinance establishing the structure and mechanism for levying and collecting connection fees. Each district's Board of Directors adopts a connection fee rate ordinance, with a rate based on the incremental cost of expansion of all facilities. A new discharger's connection fee is based on the anticipated use of the sewerage system and is levied at the time a sewer permit is issued. The connection fees are accumulated in a restricted fund and withdrawn as necessary to construct expansion-related projects.

The Board of Directors of District No. 2 also sets solid waste disposal tipping fees by ordinance, except for the Calabasas Landfill, for which rates are set by the Board of Supervisors of the County of Los Angeles after discussion with and recommendations by the Districts. The tipping fees include factors for solid waste facilities operations and maintenance costs, state and local regulatory agency fees, capital upgrade and expansion projects, acquisition costs of new facilities, relevant future closure and postclosure costs, and the Districts' Cost Transition Program discussed earlier.

The Districts' investment policies consider safety of principal the primary objective, while maintaining liquidity and a market rate of return on its portfolio. The Districts' investment policies are governed by and are in full compliance with the California Government Code. The Districts' Treasurer matches investments with anticipated cash flow requirements and does not invest in securities maturing more than five years from the date of purchase unless approved by the Districts' Boards of Directors. See accompanying Note 3 to the basic financial statements for additional information.

Major Initiatives

The sewer system maintained by the Districts continues to expand with ongoing construction of relief and replacement sewers and with occasional acquisition of sewers constructed by member cities or by developers. During fiscal year 2007-2008, approximately 5.5 miles of new sewers were constructed, bringing the total in-service mileage in the Districts' system to approximately 1,300 miles.

In an effort to help alleviate the statewide drought, the Districts have embarked on a program to maximize recycling of the effluent produced by the WRPs. Working with our partner water agencies, a number of new projects are being considered to replace the use of imported water with recycled water. The effort includes new distribution piping systems to serve areas within the County not previously served. New pipelines would meet irrigation and industrial supply needs. Furthermore, scientific studies are underway to evaluate the feasibility of expanding the recharge of groundwater basins in the eastern areas of the County with recycled water. The Districts are also evaluating how additional supplies of recycled water can be made available through the modification and expansion of the Districts' WRPs and conveyance systems.

Complementing their program of directly regulating the discharge of industrial wastewater, the Districts conduct an extensive pollution prevention program to reduce problem pollutants from diverse and sometimes widespread sources. For example, in fiscal year 2007-2008, the Santa Clarita Valley Sanitation District (SCVSD) continued a highly successful six-year public outreach campaign in the Santa Clarita Valley

to reduce chloride levels in treated effluent discharged to the Santa Clara River. Previous studies showed that residential automatic water softeners are a primary source of chloride to the SCVSD's two WRPs. The public outreach campaign, which consists of a variety of communication media, focuses on encouraging residents to stop using these devices. The campaign was awarded a National Environmental Achievement Award from the National Association of Clean Water Agencies and an award for an outstanding public outreach program from the California Water Environment Association. The SCVSD has also implemented a voluntary rebate program (a first of its kind in the nation) to encourage residents to give up their automatic water softeners. The rebate program is structured to reimburse residents 100% of the reasonable value of their automatic water softener. This rebate program was launched in May 2007 and, since that time, more than 1,700 rebate applications have been received. In addition to the rebate, the SCVSD pays the cost of the removal and disposal of the automatic water softeners. The rebate program, coupled with the continued public outreach campaign, has proven to be effective in reducing chloride levels in the treated effluent. The SCVSD estimates that the voluntary program will remove 50% of the residential automatic water softeners in its service area. In order to remove the remaining automatic water softeners, the SCVSD adopted the Santa Clara River Chloride Reduction Ordinance of 2008, on June 11, 2008. This ordinance prohibits the use of, and requires the removal of, all remaining residential automatic water softeners. In order for the ordinance to become effective, it needed to be approved by the majority of the electorate in the SCVSD service area. Voters approved the ordinance in the form of Measure "S," in the November 4, 2008, General Election.

The Districts' Puente Hills Landfill Conditional Use Permit contains three milestone requirements for the development of the remote disposal system. The Districts have met the first milestone, which is to begin development of a remote landfill by December 31, 2007. The Districts are on schedule to meet the second milestone, which is to have at least one remote landfill fully operational by December 31, 2008. Regarding the third milestone, which is to have a waste-by-rail system fully operational by December 31, 2009, the Districts have made best-faith efforts to comply with the milestone. However, because of reasons beyond the Districts' control, namely ongoing negotiations with Union Pacific to serve the project and a lengthy environmental assessment, design, and construction process for the intermodal facility (required now as the result of the unavailability of existing intermodal facilities), a fully operational waste-by-rail system will not likely be in place until 2011-2012.

AWARDS AND ACKNOWLEDGEMENTS

Certificate of Achievement

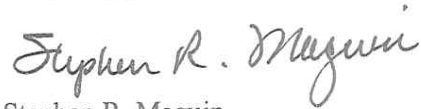
The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the Districts for its CAFR for the fiscal year ended June 30, 2007. This was the 24th consecutive year that the Districts have achieved this prestigious award. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized CAFR. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. The Districts believe that our current CAFR continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for another Certificate.

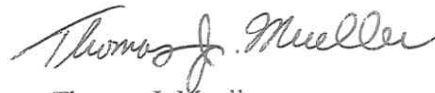
Acknowledgments

In submitting this 2007-2008 CAFR, appreciation is expressed to all departments and personnel that participated in preparing this report, and particularly to the Accounting Section members.

Very truly yours,



Stephen R. Maguin
Chief Engineer and
General Manager



Thomas J. Mueller
Chief Accountant

COUNTY SANITATION DISTRICTS OF LOS ANGELES COUNTY

Board of Directors Membership

As of June 30, 2008

<u>City</u>	<u>District(s)</u>	<u>Director Mayor^{1/}</u> <u>(2ND Director/Councilmember)</u>	<u>Alternate Director^{2/}</u> <u>(Councilmember/Supervisor)</u>
Alhambra	2-16	Luis Ayala	Barbara A. Messina
Arcadia	15-22	Robert Harbicht	Roger Chandler
Artesia	2-18-19	Sally Ann Flowers	Tony Lima
Azusa	22	Joseph R. Rocha	Keith Hanks
Baldwin Park	15-22	Manuel Lozano	Anthony Bejarano
Bell	1-2	George Mirabal	Victor Bello
Bell Gardens	2	Jennifer Rodriguez	Pedro Aceituno
Bellflower	2-3-18	Randy Bomgaars	Ray T. Smith
Beverly Hills	4	Barry Brucker	Frank M. Fenton
Bradbury	15-22	Richard G. Barakat	Bruce Lathrop
Carson	8	James L. Dear	Lula Davis-Holmes
Cerritos	2-3-18-19	Jim Edwards	Bruce W. Barrows
Claremont	21	Ellen Taylor	Peter S. Yao
Commerce (City of)	2	Tina Del Rio	Joe Aguilar
Compton	1-2-8	Eric Perrodin	Barbara J. Calhoun
Covina	22	Kevin Stapleton	John C. King
Cudahy	1	David M. Silva	Frank Gurule
Culver City	5	D. Scott Malsin	Gary Silbiger
Diamond Bar	21	Jack Tanaka	Ron Everett
Downey	2-18	David Gafin	Rick Trejo
Duarte	15-22	Philip Reyes	Margaret E. Finlay
El Monte	15	Ernest G. "Ernie" Gutierrez	Emily Ishigaki
El Segundo	SBC-5	Kelly McDowell (Mr.)	Carl Jacobson
Gardena	5	Paul K. Tanaka	Steven C. Bradford
Glendora	22	Karen Davis	Mark E. Kelly
Hawaiian Gardens	19	Michiko A. Oyama-Canada	Michael Gomez
Hawthorne	5	Larry M. Guidi	Ginny McGinnis-Lambert

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As of June 30, 2008

<u>City</u>	<u>District(s)</u>	<u>Director Mayor^{1/}</u> <u>(2ND Director/Councilmember)</u>	<u>Alternate Director^{2/}</u> <u>(Councilmember/Supervisor)</u>
Hermosa Beach	SBC	Julius (J.R.) Reviczky	Peter C. Tucker
Huntington Park	1	Elba Guerrero	Mario Gomez
Industry (City of)	15-18-21	David Perez	Jeff L. Parriott
Inglewood	5	Roosevelt F. Dorn	- - -vacant- - -
Irwindale	15-22	Larry G. Burrola	Mark Breceda
La Cañada Flintridge*	28-34	Gregory C. Brown	not applicable
La Cañada Flintridge*	28-34	Steven A. Del Guercio	—”—
La Cañada Flintridge*	28-34	Laura Olhasso	—”—
La Cañada Flintridge*	28-34	David A. Spence	—”—
La Cañada Flintridge*	28-34	Donald R. Voss	—”—
La Habra Heights	18	Stan Carroll	Layne Baroldi
La Mirada	18	Hal Malkin	Steve Jones
La Puente	15-21	Louie A. Lujan	Lola K. Storing
La Verne	21-22	Jon H. Blickenstaff	Don A. Kendrick
Lakewood	3-19	Steve Croft	Todd Rogers
Lancaster	14	R. Rex Parris	Edward P. Sileo
Lawndale	5	Harold E. Hofmann	Robert Pullen-Miles
Lomita	5	Margaret Estrada	Susan Dever
Long Beach	1-2-3-8-19	Bob Foster	Tonia Reyes Uranga
Los Angeles City	1-2-3-4-5-8-9-16	Eric Garcetti	Ed P. Reyes
Lynwood	1	Maria Santillan	Ramon Rodriguez
Manhattan Beach	SBC-5	Richard Montgomery	Portia Cohen
Maywood	1	Felipe Aguirre	Ana Rosa Rizo
Monrovia	15-22	Robert “Rob” Hammond	Joe Garcia -
Montebello	2-15	William M. Molinari	Rosemarie Vasquez
Monterey Park	2-15	Sharon Martinez	Benjamin “Frank” Venti
Norwalk	2-18	Michael A. Mendez	Cheri Kelley

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Palmdale	14-20	James C. Ledford (Jr.)	Stephen T. Knight
Palmdale	20 2 nd Dir	Stephen T. Knight	Tom Lackey
Palos Verdes Estates	SBC-5	Joseph C. Sherwood	Ellen Perkins
Paramount	1-2	Gene C. Daniels	Daryl Hofmeyer
Pasadena	15-16-17	William J. Bogaard	- - - vacant - - -
Pico Rivera	2-18	Ron Beilke	Gracie Gallegos-Smith
Pomona	21	Norma J. Torres	Paula Lantz
Rancho Palos Verdes	SBC-5	Douglas W. Stern	Lawrence C. Clark
Redondo Beach	SBC-5	Michael A. Gin	Chris C. Cagle
Rolling Hills	5	Frank E. Hill	Thomas F. Heinsheimer
Rolling Hills Estates	SBC-5	Frank V. Zerunyan	Judy Mitchell
Rosemead	15	John Tran	John Nunez
San Dimas	21-22	Curtis W. Morris	Denis Bertone
San Gabriel	2-15	Harry L. Baldwin	Juli L. Costanzo
San Marino	15-16	Robert G. Twist	Elizabeth R. Brown
Santa Clarita	SCV**	Robert C. Kellar	Marsha McLean
Santa Clarita	SCV** 2 nd Dir	Laurene Weste	—”—
Santa Fe Springs	18	Gustavo R. Velasco	Louie M. Gonzalez
Sierra Madre	15	Enid Joffe	Joseph M. Mosca
Signal Hill*	3-29	Michael J. Noll (Mayor)	M. Ellen S. Ward
Signal Hill*	29	Larry Forester	not applicable
Signal Hill*	29	Tina Hansen	—”—
Signal Hill*	29	M. Ellen S. Ward	—”—
Signal Hill*	29	Edward H.J. Wilson	—”—
South El Monte	15	Blanca M. Figueroa	Joseph J. Gonzales
South Gate	1-2	Gil Hurtado	William H. Dewitt
South Pasadena	16	Philip C. Putnam	David Sifuentes

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Temple City	15	Cathe Wilson	David J. Capra
Torrance	SBC-5	Frank Scotto	Paul M. Nowatka
Vernon*	1-2-23	Leonis C. Malburg	Hilario Gonzales D1-Alt Thomas A. Ybarra D2-Alt
Vernon*	23	William J. Davis	not applicable
Vernon*	23	Hilario Gonzales	—”—
Vernon*	23	William M. McCormick	—”—
Vernon*	23	Thomas A. Ybarra	—”—
Walnut	21-22	Joaquin Lim	Thomas P. King
West Covina	15-21-22	Sherri Lane	Roger Hernandez
West Hollywood	4	Jeffrey Prang	Sal Guarriello
Whittier	2-15-18	Joseph A. Vinatieri	Greg J. Nordbak
Los Angeles County	1, 2, 15, & 21	Yvonne Burke	Gloria Molina
27***35***	3, 5, 8, 17,18, & 19	“	Donald R. Knabe
	9	“	Zev Yaroslavsky
	14, 16, 20, 22, & SCV	“	Michael D. Antonovich
	9	2 nd Dir Michael D. Antonovich	Zev Yaroslavsky
	17	2 nd Dir Michael D. Antonovich	Donald R. Knabe

^{1/} Director is the Presiding officer of a city, all or part of which is in a Sanitation District. (§4730 Health & Safety Code)

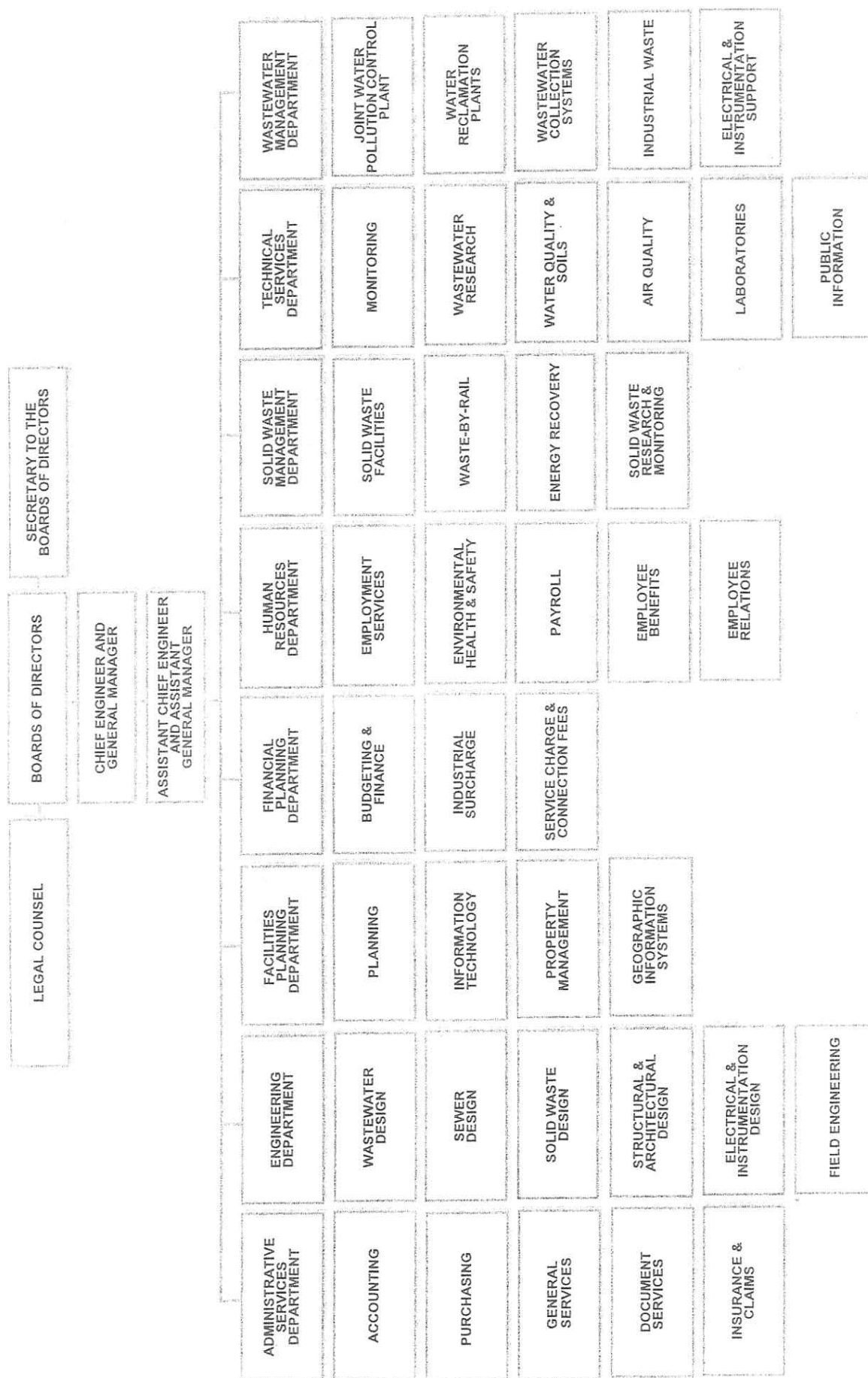
^{2/} Alternate is a member of and appointed by city council or is a member of and appointed by the Board of Supervisors to act in the absence, refusal, or inability of presiding officer to so act. (§4730 Health & Safety Code) (exception-CLA Alternate appointed by Council Pres.)

Total Cities in Sanitation Districts: 78

* Districts whose boundaries are composed of city area only: 23(Vernon), 29(Signal Hill), 28 & 34 (La Cañada Flintridge). The Boards of Directors is comprised of each city's City Council.

** Districts Nos. 26 & 32 consolidated, name legally changed to Santa Clarita Valley Sanitation District of Los Angeles County, effective July 1, 2005.

*** Districts whose boundaries are composed of only unincorporated area: 27-35 (Board of Supervisors is Board of Directors)



Certificate of Achievement for Excellence in Financial Reporting

Presented to
County Sanitation Districts
of Los Angeles County
California

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2007

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



Charles S. Cox

President

Jeffrey R. Emer

Executive Director

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